

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)
)
Amendments to Uniform System of) CC Docket No. 97-212
Accounts for Interconnection)
)

REPLY COMMENTS OF SBC COMMUNICATIONS INC.

SBC Communications Inc. ("SBC") hereby submits its Reply Comments on behalf of its subsidiaries, Southwestern Bell Telephone Company ("SWBT"), Pacific Bell and Nevada Bell, in response to comments filed on December 10, 1997, pursuant to the Commission's Notice of Proposed Rulemaking ("NPRM") in the above captioned proceeding.¹

I. THE COMMISSION SHOULD MINIMIZE THE CREATION OF NEW ACCOUNTS.

As SBC and other local exchange carriers ("LEC's") explain in their comments, it is not necessary to create any new accounts in order for LECs to account on a uniform basis for the revenues and expenses associated with interconnection.² Instead, the Commission could merely provide uniform instructions as to which existing accounts should be used.³ As SBC and other LECs have demonstrated, the existing accounts are more than sufficient to accommodate interconnection services and activities.⁴

¹ FCC 97-355, released October 7, 1997.

² The term "Interconnection" is used herein in the same manner as in the NPRM, n.14, to refer to interconnection, access to unbundled network elements, transport and termination and resale, unless the context indicates otherwise.

³ See, e.g., BellSouth at 5; GTE at 4 n.7.

⁴ SBC at 4-7, 20; USTA at 4-5, 8-9 & Attachment 1; BellSouth at 3-5.

While it is clear from the LEC comments that existing accounts are fully sufficient, if the Commission concludes that some separate accounting is necessary for interconnection, SBC submits that the Commission should create no more than two new accounts: one for revenue from the provision of interconnection to other carriers and one for the expense of obtaining interconnection from other carriers. This simpler approach to these Part 32 revisions would minimize the burden of regulation and avoid creating unnecessary requirements.

Multiple revenue accounts or sub-accounts for each of the various types of interconnection activity are not necessary for any proper purpose. As SBC and other commenters demonstrated, there is no practical advantage in isolating the revenue from each specific interconnection product or service. The goals identified by the Commission in the NPRM would not be served by establishing multiple, product-specific interconnection revenue accounts or sub-accounts.⁵ The only NPRM goal worth pursuing via Part 32 is the goal of uniform accounting and reporting of embedded or historical costs. To the extent the other three NPRM goals are legitimate objectives at all, other regulatory mechanisms outside of Part 32 are available to pursue them. It would be improper to use Part 32 to pursue the NPRM goals, other than uniformity.⁶

Not content with the onerous burdens that the NPRM's proposals would impose on LECs, the commenters who do not follow Part 32 requirements, such as MCI and Cox, propose even more detailed accounting than that which is proposed in the NPRM. For example, MCI proposes that revenue from unbundled network elements ("UNEs") and

⁵ SBC at 4-7; BellSouth at 3-4,5; Bell Atlantic at 4-9; GTE at 4.

⁶ SBC at 8-20.

interconnection be recorded in two separate accounts. Proposing even more onerous, detailed accounting, Cox wants transport and termination revenue also to be split into separate accounts.⁷ In support of their pleas for greater accounting burdens for LECs, MCI and Cox offer nothing more than vague claims that additional disaggregation into multiple accounts and sub-accounts will assist the Commission in monitoring the development of competition.⁸

For example, MCI argues in conclusory fashion that UNE revenue should be recorded separate from interconnection revenue in order to “determine whether each entry method is available” and “to ensure that all three avenues to competition develop.”⁹ MCI does not explain why it is necessary to impose burdensome, detailed accounting requirements to determine whether interconnection, UNEs and resale are available. Other far simpler methods exist by which the Commission can determine the extent of local competition by different entry methods. SBC and other commenters provided examples of less burdensome methods of monitoring the development of competition.¹⁰ In fact, it would be much simpler and efficient if the Commission periodically surveyed a random sample of the LECs to find out the volume of different forms of interconnection occurring in different markets. If the Commission periodically samples LECs for data concerning the quantity of each type of interconnection sold to competitive LECs (“CLECs”), it will

⁷ Cox at 2, 5-7.

⁸ Cox at 4, 6-7; MCI at 5.

⁹ MCI at 5.

¹⁰ SBC at 18 & n.30; Ameritech at 4; USTA, Attachment 2, Affidavit of J. Gregory Sidak, at 59 ¶109.

be able “to monitor the qualitative development of local competition.”¹¹ Admittedly, such information on quantities sold will not provide interconnection revenue or pricing detail, but that is the province of the state regulators, rather than the Commission.

Given that the existing Part 32 accounts are fully sufficient to permit uniform accounting for interconnection services and activities, the Commission should apply the same standard as in the Accounting Safeguards Proceeding to suggestions that more onerous or detailed accounting requirements be adopted. The Commission stated:

We note that those urging that we adopt more detailed accounting safeguards than those in our current rules or those specifically mandated by the 1996 Act bear a heavy burden of persuading us to adopt such safeguards.¹²

MCI, Cox and the other non-LEC commenters have not satisfied this “heavy burden.”

Therefore, their proposals to adopt more detailed accounting requirements should be rejected. Further, in view of the sufficiency of existing accounts, or at most two new accounts, to accomplish the necessary uniformity, the Commission should forbear from adopting additional, burdensome accounting requirements.

II. PART 32 SHOULD NOT BE USED TO DETERMINE THE COST OF PROVIDING INTERCONNECTION.

As SBC and others explained in their comments, the NPRM’s proposal to identify a portion of the interconnection-associated costs in each Part 32 expense account is fundamentally inconsistent with the functional accounting principles underlying Part 32 and is inconsistent with an objective regulatory accounting system.¹³ While the non-LEC commenters appear to be in favor of this NPRM proposal to estimate certain

¹¹ Cox at 4.

¹² Accounting Safeguards Order, CC Docket 96-150, Notice of Proposed Rulemaking, 11 FCC Rcd 9054 ¶ 12 (1996) (emphasis added).

¹³ SBC at 8-18; BellSouth at 6-11; USTA at 2, 7-8, 10.

interconnection-specific costs in each Part 32 expense account, none of them provide any meaningful justification for imposing this heavy-handed requirement. Given the lack of substantiating comments and the ill-defined objectives of the NPRM, there is an insufficient record to support the adoption of this requirement.

The only support offered by non-LEC commenters are the vague claims discussed above concerning a supposed need for detailed interconnection-specific accounting data in order to monitor the development of competition. Instead of attempting to provide any support for the NPRM's proposal, the non-LEC commenters seek to have the Commission impose more detailed, onerous accounting requirements, such as separate subsidiary records for interconnection and UNEs, full separate Part 32 accounts instead of subsidiary records and other suggested modifications.¹⁴

The NPRM is attempting to fit an oversized round peg in a square hole. As SBC and Ameritech observed, what the NPRM is proposing is akin to a Part 64 CAM-like process of identifying service-specific costs within each Part 32 account.¹⁵ Truly, this is mixing Part 32 accounting apples with Section 252 pricing oranges, as observed by GTE.¹⁶ The non-LEC commenters that support this proposal have not provided any reason to ignore the purposes of the Part 32 accounting system. Likewise, these non-LEC commenters have not explained why allocation of interconnection-specific costs should be considered at all within the framework of Part 32, as opposed to some other more appropriate regulatory mechanism, such as the Part 36 separations process.

¹⁴ See, e.g., MCI at 4-5, GSA at 6; Cox at 8-9.

¹⁵ Ameritech at 9; SBC at 12. However, even Part 64 does not allocate costs to specific products or services.

¹⁶ GTE at 6.

Instead of attempting to support the NPRM's proposal, the non-LEC commenters seek to impose additional accounting requirements or to modify the NPRM's proposal. For example, GSA appears to seek two separate subsidiary records in each account, one for UNEs and another for interconnection.¹⁷ GSA and other non-LEC commenters have not provided any substantive support for one subsidiary record. If one subsidiary record is not justified, two subsidiary records are even less justifiable.

Also bypassing the threshold issue as to the lack of justification for this proposed requirement, MCI objects to this proposal because it believes that the full embedded cost of providing interconnection should be recorded in the subsidiary records, instead of the Commission's proposed method of arbitrarily populating the interconnection-specific record in each expense account based on a cost study allocation of revenues.¹⁸ MCI's objection demonstrates that this proposal to identify the costs of a specific type of service is a policy-driven mechanism that does not belong in an objective financial accounting system. Whether and what measure of fully allocated or incremental share of common costs should be allocated to a specific service offering is not the sort of policy decision that can be made based on objective accounting principles alone.

While none of the non-LEC commenters addressed the relevance of the companion Separations Reform Proceeding,¹⁹ BellSouth observed that the NPRM's

¹⁷ GSA at 6.

¹⁸ MCI at 3-4.

¹⁹ A few commenters in the Separations Reform Proceeding mention the accounting proposals in their discussion of the issue of the separations treatment of interconnection costs, but SBC does not address these comments because they do not address the substance of the accounting proposals. See, e.g., Comments of AT&T, CC Docket No. 80-286, filed Dec. 10, 1997, at 23-24.

accounting proposals “will not facilitate separations reform.”²⁰ SBC agrees. In fact, the allocation of costs of providing interconnection to CLECs should not occur in a misplaced, CAM-like process within Part 32. Instead, as proposed by SBC in the companion Separations Reform Proceeding, the fully distributed costs of providing interconnection should be identified through a separate cost study process using simplified separations-like procedures and those interconnection-specific costs identified as proposed by SBC would be removed prior to the separations process.²¹ Basically, identification of the costs of a specific type of service, such as interconnection, is not a proper Part 32 function because it involves assignment and allocation of common costs based on inherently arbitrary allocators. Such cost allocations should occur after, and apart from, the objective Part 32 accounting process.

As the Commission noted in the NPRM that it anticipates that interconnection “will not generate new types of costs beyond those already being incurred in normal operations,”²² the cost of interconnection should continue to be recorded on a functional basis in the existing Part 32 accounts. Costs should not be assigned or allocated to a specific jurisdictional or ajurisdictional category within the basic system of accounts. Instead, if the purpose is to identify interconnection costs for purposes of removing them prior to separations or otherwise for separations purposes, then that identification and allocation process should take place outside of Part 32 using procedures akin to those in Part 36 to identify the fully distributed cost of interconnection.

²⁰ BellSouth at 13.

²¹ Further details are contained in SBC’s Comments and Reply Comments in the Separations Reform Proceeding. Comments of SBC Communications Inc., CC Docket No. 80-286, filed Dec. 10, 1997, at 16-18; Reply Comments of SBC Communications, Inc., CC Docket No. 80-286, filed Jan. 26, 1998.

²² NPRM Paragraph 14.

III. THE PURPOSES OF THE NPRM'S REQUIREMENTS ARE ILL-DEFINED.

A comment by BellSouth describes best SBC's reaction to this entire NPRM:

It is not clear what the Commission hopes to accomplish with [these] requirements.²³

Other comments also reflect this confusion concerning the stated purposes of the NPRM. Ameritech asserts that “[r]estating cost studies using the regulated books of account after conducting and gaining state approval for rates based on costs studies which do not use regulated books of account would be ... of no use.”²⁴ GTE states that “[t]ranslating the Section 252 cost studies for purposes of sub-categorizing regulated booked Part 32 activities would force ILECs to convert apples into oranges – an endeavor that would be ... ultimately fruitless, as it would not provide any useful information regarding local competition.”²⁵ Bell Atlantic states that “the cost studies would serve no valid regulatory purpose.”²⁶ Even MCI seems confused when it discusses the NPRM's proposed interconnection cost study requirement in terms of a mechanism to remove “all embedded costs associated with facilities purchased by new entrants ... from the ILEC's rate base.”²⁷ Certainly, determination of the interstate rate base components does not occur in Part 32 and the NPRM does not address the subject of the rate base at all.

These and other comments reflect that the NPRM did not draw any logical

²³ BellSouth at 9.

²⁴ Ameritech at 9.

²⁵ GTE at 6.

²⁶ Bell Atlantic at 4.

²⁷ MCI at 3-4.

connection between its proposed requirements and its broad goals.²⁸

Like some commenters, such as USTA and BellSouth, SBC is especially concerned that, by its proposal, the Commission is attempting indirectly to evaluate the cost studies used to establish intrastate interconnection prices pursuant Section 252.²⁹ The Commission should not attempt to do indirectly what the Eighth Circuit did not allow it to do directly in Iowa Utilities Board.³⁰ The Commission should also avoid any attempt to identify within Part 32 the cost of providing a specific type of service to a specific type of customer. To the extent necessary, such cost allocation procedures are best handled after costs have been booked objectively in Part 32. Specifically, SBC submits that a separation-like procedure should be used to remove interconnection-related costs from separations pursuant to Part 36 as discussed above and in SBC's Comments in the Separations Reform Proceeding.

IV. CONCLUSION.

Non-LEC commenters such as MCI and Cox seek more detailed accounting than the NPRM proposed both for revenue from a LEC's provision of interconnection and the expenses incurred in providing those interconnection services. Detailed accounting is not needed in either case to accomplish uniform accounting or to monitor the development of competition. First, uniformity merely requires standard instructions concerning the accounts to use. Second, much simpler methods of monitoring competition are available

²⁸ USTA at 2, 4 & n.9, 10, Attachment 2, Affidavit of J. Gregory Sidak at 4, 6-7, 58-60 (The NPRM's goals "are questionable for five reasons."); Puerto Rico Telephone Co. at 4 ("[T]he records themselves may provide minimal value.")

²⁹ USTA at 7; BellSouth at 9-10.

³⁰ 120 F.3d 753 (8th Cir. 1997). See also Iowa Utils. Board v. FCC, No. 96-3321 (8th Cir. Jan. 22, 1998) (order enforcing mandate).

that do not require detailed product-specific data to be calculated throughout numerous Part 32 expense accounts. Also, these alternate methods of monitoring competition make it unnecessary to require revenue to be reported at the level of individual interconnection products or categories.

For these reasons, the Commission should reject suggestions to adopt more detailed, burdensome product-specific accounting and adopt the simpler, deregulatory proposals described above and in SBC's initial comments.

Respectively submitted,

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CERTIFICATE OF SERVICE

I, Katie M. Turner, hereby certify that the foregoing, "REPLY COMMENTS OF SBC COMMUNICATIONS INC." in CC Docket No.97-212 has been filed this 26th day of January, 1998 to the Parties of Record.

A handwritten signature in cursive script, reading "Katie M. Turner", written over a horizontal line.

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January 26, 1998

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